

Message Text

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ACTION EB-11

INFO OCT-01 PA-04 PRS-01 USIA-15 ISO-00 COME-00 AGR-20

OMB-01 TRSE-00 CIEP-02 STR-08 CIAE-00 INR-10 NSAE-00

RSC-01 AF-10 ARA-16 EA-11 EUR-25 NEA-10 OIC-04 IO-14

L-03 SIL-01 LAB-06 TAR-02 SWF-02 AID-20 SPC-03 CEA-02

DRC-01 /204 W

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R 251735Z FEB 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8216

INFO AMEMBASSY ABIDJAN

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E.O. 11652: N/A

TAGS: EGEN

SUBJECT: COFFEE: WORKING GROUP ON RENEGOTIATION OF
INTERNATIONAL COFFEE AGREEMENT

SUMMARY. W.G. ON RENEGOTIATION MET IN LONDON FEBRUARY
18-21. DISCUSSION WHILE SOMEWHAT SUPERFICIAL RANGED
WIDELY OVER ISSUES WHICH WOULD NEED TO BE SETTLED IF
NEW COFFEE AGREEMENT INCLUDING ECONOMIC CLAUSES NEGO-
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TIATED. MAJOR INTEREST CENTERED IN QUESTIONS OF PRICE

PRINCIPLES, SUPPLY OF COFFEE, AND PRODUCTION POLICY. NO DECISIONS REACHED BUT EXECUTIVE DIRECTOR ASKED PREPARE NUMBER OF WORKING PAPERS. DATE OF NEXT MEETING OF GROUP WILL DEPEND ON HOW LONG IT TAKES PREPARE DOCUMENTATION. END SUMMARY

1. MEETING BEGAN BY ELECTING EXECUTIVE DIRECTOR OR HIS DESIGNEE AS CHAIRMAN. IN FACT, MEETING CHAIRED BY DEPUTY EXECUTIVE DIRECTOR LOUDON, SINCE EXECUTIVE DIRECTOR BELTRAO DID NOT RETURN FROM BRAZIL FOR MEETING.

2. DISCUSSION CENTERED AROUND ISSUES PAPER PREPARED BY EXECUTIVE DIRECTOR WHICH RAISED AND DISCUSSED MATTERS WHICH WOULD NEED TO BE SETTLED IN ANY NEGOTIATION OF NEW COFFEE AGREEMENT WITH ECONOMIC CLAUSES. OAMCAF REQUESTED THAT PRICE BE FIRST PROBLEM DISCUSSED. ASSUMPTION WAS THAT IN ANY NEW AGREEMENT SOME PRICE TARGET NECESSARY. DISCUSSION WAS IN TERMS OF PRINCIPLES AND NO RPT NO DISCUSSION OF PRICE LEVELS.

3. NETHERLANDS BEGAN PRICE DISCUSSION BY ASKING WHETHER MEMBERS COULD SUPPORT PRINCIPLE THAT ANY AGREEMENT PRICES BE SUBJECT TO AUTOMATIC ADJUSTMENT TO TAKE INTO ACCOUNT CURRENCY FLUCTUATIONS AND EFFECT OF INFLATION ON PURCHASES ABROAD BY PRODUCERS. NETHERLANDS IMPLIED THEY COULD SUPPORT AUTOMATIC USE OF PRICE INDEXES AND SAID THAT FUTURE AGREEMENT SHOULD NOT DEPEND SOLELY ON SINGLE CURRENCY (DOLLAR) FOR ITS PRICE PROVISIONS. ALL PRODUCERS WHO SPOKE (GUATEMALA, COLOMBIA, MEIXCO, OAMCAF AND BRAZIL) INSISTED THAT AUTOMATIC INDEXES TO COVER CURRENCY FLUCTUATIONS AND EXTERNAL INFLATION HAD TO BE BUILT INTO AGREEMENT. BRAZIL, PRESUMABLY TO IMPEDE CONFERENCE, PROPOSED THAT AGREEMENT PRICES ALSO BE TIED TO INDEX OF COST OF DOMESTIC INPUTS, E.G. LABOR, BUT THIS NOT SUPPORTED BY OTHER PRODUCERS AND NOT PRESSED HARD. ON CONSUMER SIDE, BRITAIN AND GERMANY STRONGEST IN OPPOSITION TO ANY AUTOMATIC INDEXING. FRANCE SAID THEY COULD SUPPORT INDEXING FOR CURRENCY FLUCTUATIONS BUT NOT INFLATION. AS COUNTER PROPOSAL, BRITISH CIRCULATED COCOA AGREEMENT PRICE TEXTS (ARTS 29 AND 42) AND SAID LIMITED OFFICIAL USE

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THEY NOT PREPARED MOVE BEYOND BASIC IDEA OF CONSULTATION EMBODIED THEREIN. BOTH GERMANY AND SWEDEN MADE SAME POINT, LATTER ADDING "AT PRESENT". OAMCAF SAID THAT THEIR THINKING BAD EVOLVED SINCE NEGOTIATION OF COCOA AGREEMENT, AND THAT COCOA FORMULA NO LONGER ACCEPTABLE. U.S. DID NOT PLAY MAJOR ROLE IN DEBATE.

4. ON QUESTION OF SUPPLY, EXECUTIVE DIRECTOR'S PAPER

HAD RAISED POSSIBILITY OF RESERVE STOCK UNDER INTERNATIONAL CONTROL. THIS WARMLY SUPPORTED BY COLOMBIA AND GUATEMALA. LATER REMINDED GROUP THAT IDEA NOT NEW; PRODUCERS HAD MADE ROUGHLY SIMILAR SUGGESTION IN MAY 1969, BUT HAD BEEN REBUFFED BY CONSUMERS. OTHER PRODUCERS SEEMED INCLINED FAVOR IDEA ALTHOUGH MEXICO AND OAMCAF QUESTIONED EQUITY OF REQUIRING PRODUCERS BEAR FINANCIAL BURDEN AND COMMERCIAL RISKS OF SUCH STOCKS. ON CONSUMER SIDE, BRITAIN EXPRESSED GUARDED INTEREST IN IDEA, AND NETHERLANDS SAID THEY AGREED THAT PRODUCER FINANCING OF RESERVE STOCK MIGHT NOT BE EQUITABLE. U.S. UNDERLINED SIGNIFICANCE OF GUATEMALA'S REMARK, POINTING OUT THAT RESERVE STOCK IDEA HAD

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ORIGINALLY SURFACED AS DEVICE FOR ORDERLY MARKETING OF COFFEE IN ORDER MAINTAIN PRICE. IDEA COULD BE EXPLORED MORE DEEPLY, BUT IT DID NOT SEEM OFFER CONSUMER GREAT DEAL IN WAY OF ADDITIONAL SUPPLY ASSURANCES, LET ALONE SUPPLY GUARANTEES. IN RESPONSE TO QUESTION FROM CHAIR, U.S. SAID THAT GUARANTEES COULD CONSIST OF TECHNIQUES SUCH AS SUPPLY COMMITMENT UNDER INT'L SUGAR AGREEMENT WHICH HAD ALREADY BEEN MENTIONED BY LIMITED OFFICIAL USE

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CANADA IN EARLIER COFFEE MEETINGS, OR WRITTEN PROMISES ON QUOTA FULFILLMENT SUCH AS REQUIRED OF RECIPIENTS UNDER U.S. DOMESTIC SUGAR LEGISLATION. AUTOMATIC QUOTA

ESTABLISHMENT AND FLEXIBLE COFFEE YEAR ALSO DISCUSSED AT LENGTH BUT WITHOUT ANYTHING VERY CLEAR EMERGING.

5. THERE WAS ALSO EXTENDED DISCUSSION OF BUFFER STOCK IDEA WHICH HAD APPEARED IN PAPER. THIS STRONGLY OPPOSED BY GERMANY AND BRITAIN. NETHERLANDS, CITING TIN, CLAIMED THAT IDEA COULD ALSO WORK IN COFFEE. GUATEMALA AND COLOMBIA INDICATED THEY WOULD SUPPORT IDEA AS SUPPLEMENT TO RESERVE STOCK SCHEME. U.S. INDICATED THAT THERE WERE THEORETICAL ADVANTAGES TO A BUFFER STOCK IF PROBLEM OF STRUCTURAL OVERPRODUCTION HAD BEEN SOLVED, BUT CLEARLY THIS WOULD BE IN LIEU OF, NOT PART OF, SUPPLY RESTRICTING ARRANGEMENT INVOLVING QUOTAS.

6. PRODUCTION POLICY DISCUSSED AT LENGTH. TOPIC RAISED BY COLOMBIA (GOMEZ-JARAMILLO) WHO GAVE LONG DISSERTATION ON WEAKNESSES OF ICA 1962-1968, ALLEGING THAT MAJOR FAULT WAS ABSENCE OF STRONG, ENFORCEABLE PRODUCTION GOALS. GOMEZ SAID ANY NEW AGREEMENT WOULD REQUIRE BOTH STRONG PRICE POLICY AND ENFORCEABLE PRODUCTION GOALS. AT END OF SPEECH HE PREDICTED THAT OVERPRODUCTION PROBLEM WOULD EXIST IN 3-5 YEARS, SAID THAT CONCENTRATION IN MAJOR CONSUMING MARKETS ALLOWED MAJOR PRODUCERS TO DEAL DIRECTLY WITH MAJOR ROASTERS AND WARNED FELLOW PRODUCERS THAT "WHEN OVERPRODUCTION CAME, COLOMBIA WOULD NOT FOLLOW PRICE DEFENSE POLICY". AFRICAN PRODUCERS WHO REPLIED (UGANDA, KENYA AND OAMCAF) SAID IN ESSENCE THAT PRODUCTION GOALS HAD TO BE FLEXIBLE AND TAILORED TO INDIVIDUAL COUNTRIES NEEDS, INCLUDING NEED FOR FOREIGN

EXCHANGE.

7. PROMOTION ALSO DISCUSSED AT SOME LENGTH. COLOMBIA CALLED FOR SYSTEM REQUIRING ONLY VOLUNTARY CONTRIBUTIONS FROM MEMBERS, AND RUN EXCLUSIVELY BY CONTRIBUTING COUNTRIES. GUATEMALA AGREED ON NECESSITY FOR AUTONOMY FOR PROMOTIONAL ACTIVITIES BUT SAID CONTRIBUTIONS SHOULD BE COMPULSORY. OAMCAF RAISED ISSUE OF OBSTACLES TO CON-LIMITED OFFICIAL USE

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SUMPTION, MAKING CLEAR THAT REFERENCE WAS TO GERMAN INTERNAL TAX AND SAID THAT THIS ISSUE SHOULD BE ON AGENDA OF NEXT MEETING. ON ANNEX B, NO DELEGATE SUPPORTED ITS RETENTION BUT GUATEMALA ASKED FOR PAPER ON IMPLICATIONS THIS MOVE.

8. OTHER QUESTIONS, INCLUDING TERM OF EXTENDED AGREEMENT, VOTING, AND OBJECTIVES OF AGREEMENT ALSO DISCUSSED. ON LATTER POINT, SECRETARIAT CIRCULATED DRAFT OBJECTIVES WHICH WERE SUBJECT CONSIDERABLE TEXTUAL CRITICISM BY PRODUCERS.

9. AT END OF MEETING, BRAZIL PROPOSED THAT NO FURTHER ACTION BE TAKEN PENDING ASSIMILATION OF RESULTS OF MEETING BY GOVERNMENTS. THIS OPPOSED BY ALL DELEGATES WHO SPOKE. EVENTUALLY CONSENSUS EMERGED THAT EXECUTIVE DIRECTOR PREPARE A SERIES OF WORKING PAPERS INCORPORATING RESULTS OF DISCUSSIONS AND ANALYZING IN GREATER DETAIL ISSUES THAT EMERGED. SECRETARIAT UNABLE GIVEN AN ESTIMATE OF HOW LONG PREPARATION WOULD TAKE. WAS AGREED THAT EXECUTIVE BOARD, AT MEETING ON MARCH 18, WOULD SET FIRM DATE. FROM WHAT WE TOLD PRIVATELY, IT SEEMS LIKELY THAT MEETING WILL BE HELD 3RD OR 4TH WEEK IN MAY, WITH CONSEQUENT POSTPONEMENT OF BOARD AND COUNCIL MEETING SCHEDULED THOSE DATES.

10. COMMENT. ATMOSPHERE AT MEETING WAS CORDIAL, BUT LITTLE SENSE OF URGENCY NOTED. EVEN AFRICANS, WHO USUALLY GUNG-HO FOR AGREEMENT, WERE NOT RPT NOT PRESSING ANY ISSUES, WHILE BRAZILIANS WERE OBSTRUCTIVE AT TIMES AND GENERALLY MUCH MORE SILENT THAN USUAL. NONETHELESS RELATIVE CORDIALITY OF MEETING AND FACT THAT MAJOR ISSUES WERE DISCUSSED, ALBEIT SUPERFICIALLY, PROVIDED SOME GROUNDS FOR OPTIMISM.

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